

U.S. Congresswoman

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Subcommittee on Housing and Community Opportunity
“Prospectives on Natural Disaster Insurance”
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Madam Chairwoman, I cannot thank you enough for holding this hearing today. The insurance crisis that Florida and other coastal states are facing is eminent, and I am grateful that you have taken an interest in this so early in the 110th Congress. I have been working on this issue with my colleagues for the past three years, and while I have made headway, the perception that natural disaster insurance availability and affordability is only a Florida problem could not be more wrong. While it is true that Florida is feeling the effects more acutely, lawmakers in Louisiana and Mississippi are having a very hard time luring insurance providers back to their state. And customers as far north as Massachusetts – a state that has not experienced a significant natural disaster in a decade – are losing their coverage. Congress cannot wait for the market to completely collapse before we decide to act, and I thank you for your leadership on this issue.

As many of you know, I have reintroduced my bills, the HR 91, Homeowners’ Insurance Protection Act and HR 330, the Homeowners Insurance Availability Act. I am also working with my colleagues Ron Klein, Tim Mahoney, Carolyn Maloney, and Vern Buchanan on a bipartisan solution to the property and casualty insurance crisis facing this nation. Additionally, my counterparts in the Senate introduced a version of my bill. My proposals are simple and specific –both create a federal catastrophe fund to provide the stability needed in today’s market.

The main reason many states are losing providers is the skyrocketing cost of reinsurance. Those representing the reinsurance industry will testify that they have plenty of capacity, but what they won’t tell you is that it is not affordable. In 2002 in Florida, the cost of reinsurance was 7.1 cent of every dollar a homeowner spent on insurance. Just four years later in 2006, reinsurance accounted for 44.5 cents of every dollar homeowners spent. *(I ask for unanimous consent to submit this chart from the Florida Office of Insurance Regulation detailing the*

reinsurance cost increases into the record.) Until this market stabilizes and reinsurers provide a product that is available *and* affordable, the federal government must have a role.

Both of my bills assume that role. HR 330 would divide the nation into six different regions so the federal government could sell reinsurance policies to the insurers. This federal fund would only be available if a 1:100 year event or higher occurred, and this reinsurance would be a fraction of the cost, potentially as low as a quarter of current industry costs.

HR 91 takes a different approach. The federal government would sell reinsurance policies directly to states – not private insurers – that have established state catastrophe funds. This approach is more comprehensive and better for our nation because under this bill states would have to take responsibility for planning for natural disasters by enacting strong building codes and committing at least 35% of their state funds toward mitigation. Under HR 91, states would also have to establish a pass through mechanism, so that any savings insurers realize from my bill are passed on to the consumer, as they should be.

HR 91 also establishes tax-deferred reserves for private insurers. These act as “savings accounts” for insurers to plan for future, catastrophic disasters instead of relying so heavily on expensive reinsurance from the private market. Insurers could not use them unless a 1:100 year event or higher occurred, assuring that these reserves truly are used for catastrophic events.

The role and responsibility of HR 91 is also considerably less than some of the other proposals Members have drafted. Under my bill, the federal catastrophe fund could not be used unless a 1:200 year event or higher occurred. Additionally, once the reinsurance fund is triggered, states must still pay 10% of the cost, so the federal government is never on the hook for the full cost of a natural catastrophe.

In short, my bill offers a multi-layered approach to covering natural disasters – first the primary insurers cover homeowner losses, then states provide coverage, and finally the federal government provides coverage if need be.

Many Members representing non-coastal states have asked me why they should support a national catastrophe reinsurance fund. These Members and their constituents forget that they already are paying under the fragmented insurance system we operate under today. Congress is the insurer of last resort today. When a city

or state is unprepared, has never enacted building codes, or focused on mitigation and is demolished in a natural disaster, Congress comes to the rescue with taxpayer dollars. And many of these projects are needed to help people rebuild their lives – Florida has even been a recipient of these funds. But wouldn't it be nice if Congress already had a fund, a reinsurance fund filled with insurer premiums – not tax dollars – to pay for these resurrection projects? For the first time, Congress could be *pro*-active instead of *re*-active.

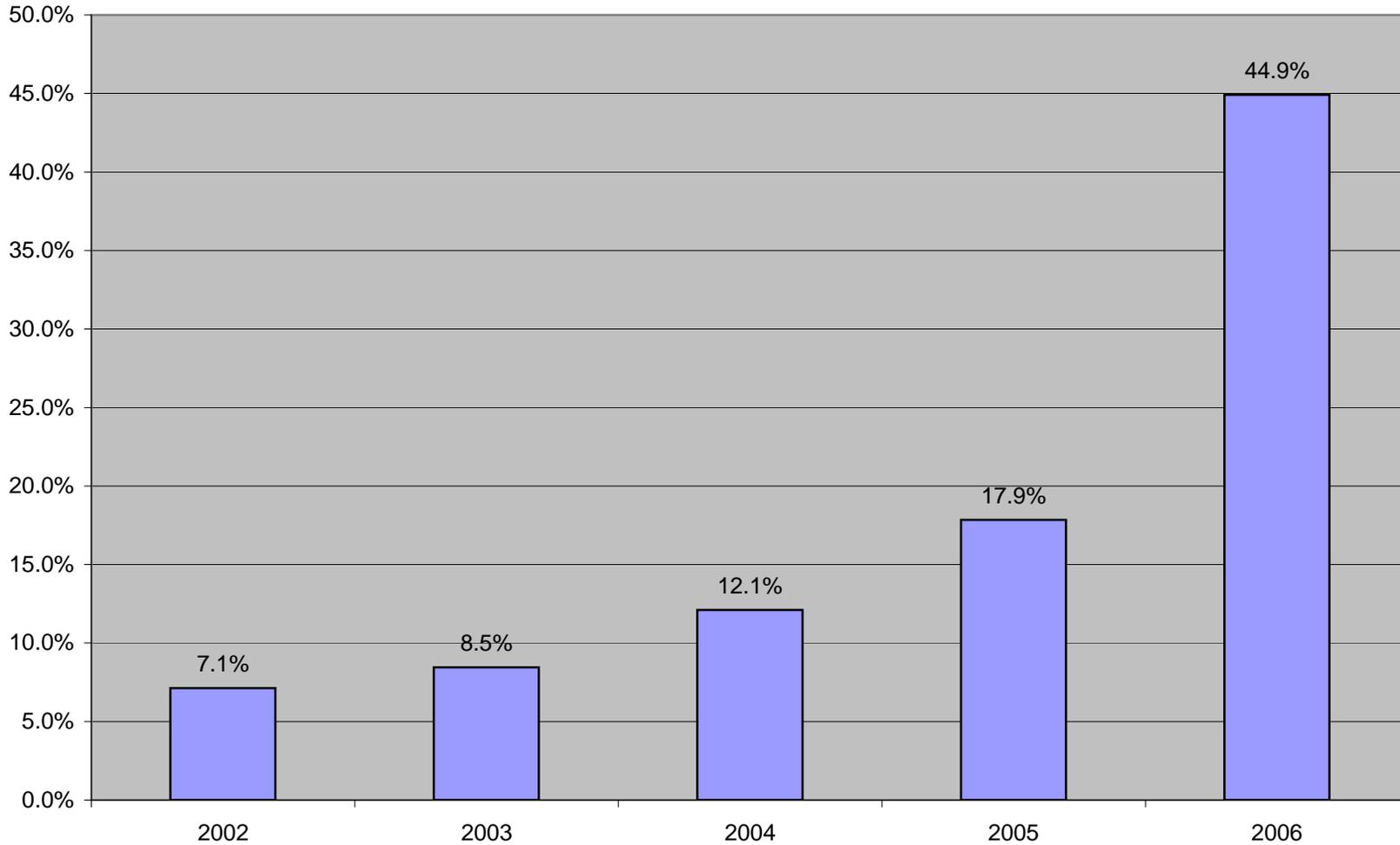
Consider this: since its enactment in 2001, not one dollar of the TRIA fund has been spent; yet insurers have allocated additional capacity to terrorism risk, prices have declined, and take-up (purchase) rates have increased. In 2003, only 27% of companies purchased terrorism insurance. In 2005, 58% of companies purchased terrorism reinsurance, and the overall cost of coverage has fallen by 3-5% of total property insurance costs. Again, without one dollar of the TRIA fund being spent.

I don't propose that my bills are the silver bullet or the final answer. However, my bills are part of the solution and if passed with some of the other good proposals Members have introduced could go a very long way to protect property and casualty customers nationwide. The only state in the Union that is not susceptible to a natural disaster is North Dakota. Every other state in the Union is prone to hurricanes, earthquakes, or tornadoes. Either Congress moves everyone to North Dakota or we enact real, meaningful, and proactive solutions to a crisis that affects this whole nation.

Thank you again Madam Chairwoman and I look forward to asking any questions you might have.

Office of Insurance Regulation

Homeowners 2002-2006 Reinsurance Cost
(Percent of Premium Dollar)



State Farm, Allstate, Universal Property Casualty, American Strategic